North Canton City Council
Ordinance, Rules and Claims Committee

Ordinance No. 33 – 2015

An ordinance authorizing the Director of Finance of the City of North Canton to implement the Generally Accepted Accounting Principles (GAAP) conversion plan recommended by the Ohio Auditor of State.

WHEREAS, the Ohio Auditor of State recommends local governments implement GAAP for enhanced government transparency.

WHEREAS, the GAAP conversion plan will assist in reducing the likelihood of inconsistencies or accounting principle errors in the conversion process.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF NORTH CANTON, COUNTY OF STARK, AND STATE OF OHIO:

Section 1. That the Director of Finance of the City of North Canton is hereby authorized to implement the GAAP conversion plan recommended by the Ohio Auditor of State.

Section 2. That if a provision of this ordinance is or becomes illegal, invalid or unenforceable, that shall not affect the validity or enforceability of any other provision of this ordinance.

Section 3. That this ordinance shall take effect and be in full force immediately upon its adoption by Council and approval by the Mayor. Otherwise, it shall take effect and be in force from and after the earliest period allowed by law.

Passed in Council this 8th day of June 2015

David Held

David Held, Mayor

Signed: 6/08, 2015

ATTEST:

Mary Beth Bailey

Mary Beth Bailey, Clerk of Council

City of
North Canton, Ohio

GAAP CONVERSION PLAN

City Finance Department
145 N Main Street
North Canton, Ohio 44720

CITY OF NORTH CANTON, OHIO
GAAP Conversion Plan

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Introduction

Each year, the City of North Canton (the "City") is required by Ohio Administrative Code Section 117-2-03 to report its annual financial activity in conformity with accounting principles generally accepted in the United States of America (GAAP). The City's financial accounting system prepares information on a cash-basis with receipts and disbursements. In order for the City to report on a GAAP-basis, the City must complete a "GAAP conversion" of its cash-basis financial information to report accruals that display the financial activity in the proper fiscal year in accordance with GAAP. This GAAP Conversion Plan will serve as a walk through for the theories and procedures that the City will follow in order to report in conformity with GAAP and include all applicable assets and liabilities.

To report in conformity with GAAP, the City must prepare Basic Financial Statements (BFS). The City has the option to prepare a Comprehensive Annual Financial Report (CAFR) which includes the BFS along an introductory section, combining statements and schedules and a statistical section.

In each section, all applicable Governmental Accounting Standards Board (GASB) Statements, Ohio Auditor of State (AOS) guidance and Ohio Revised Code (ORC) sections are analyzed for application in the financial statements.

The City's BFS consists of various financial statements that display fund financial information as well as government-wide financial information. The BFS also reports the City's budgetary information for the general fund and any major special revenue funds. The budgetary statements are prepared on the budget basis of accounting. The City's basis of presentation, measurement focus and fund types are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows, and in the presentation of expenses versus expenditures.

Fund Types

GOVERNMENTAL FUNDS

Governmental fund reporting focuses on the sources, uses and balances of current financial resources and often has a budgetary orientation. The governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

PROPRIETARY FUNDS

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund classification includes enterprise and internal service funds.

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

Internal service funds may be used to report any activity that provides goods or services to the other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should only be used if the reporting government is the predominate participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

Agency funds should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

The City's Funds

Below is a summary of the City's funds and how they are grouped together for reporting purposes:

General Fund

101	General Fund
203	Income Tax Fund
214	Compensated Absences Fund
870	North Canton CIC Escrow Fund

Special Revenue Funds

204	Fire Operating Fund
205	EMS Operating Fund
206	Computer Trust Fund
207	Enforcement and Education Fund
208	Street Construction M & R Fund
209	Storm Sewer Improvement Levy Fund
210	Street Improvement Levy Fund
211	Municipal Road Fund
212	General Trust Fund
213	Law Enforcement Trust Fund
215	Continuing Professional Ed Fund
216	Community Disaster Relief
Mayor's Court	Mayor's Court Fund

Capital Project Funds

330, 331	Capital Improvement Fund
332	Issue II Improvement Fund
333	Hoover District Improvement Fund

Enterprise Funds

650, 651	Water Fund
652	Sewer Fund
654	Garbage Service Fund

Internal Service Funds

761	Insurance Fund

Agency Funds

871	Permit Fee Fund
873.543	Required Deposits Fund
N/A	Construction Retainage

Revenue and Expenditure Classifications

The City's financial accounting system classifies revenues and expenditures by account code.

Below is summary of the general fund (fund 101) revenues classifications per the accounting system compared to how they are reported in the financial statements.

Account Code	Description	Classification
101.000.4100	REAL ESTATE & PERSONAL PROP TAX	Real and Other Taxes
101.000.4200	REAL ESTATE ROLLBACK TAX	Intergovernmental
101.000.4201	LOCAL GOV'T COUNTY	Intergovernmental
101.000.4202	LOCAL GOV'T STATE	Intergovernmental
101.000.4203	ESTATE TAX	Intergovernmental
101.000.4204	CIGARETTE TAX	Intergovernmental
101.000.4205	HOTEL-MOTEL TAX	Real and Other Taxes
101.000.4206	LIQUIOR PERMIT FEES	Intergovernmental
101.000.4207	STATE & FEDERAL GRANTS	Intergovernmental
101.000.4208	OHIO PEACE OFFICERS TRAINING REIMBUR	Intergovernmental
101.000.4212	VACANT BUILDING REG FEE	Licenses and permits
101.000.4300	LICENSES & PERMITS COLLECTIONS	Licenses and permits
101.000.4400	DOGWOOD SHELTER CHARGES	Rental income
101.000.4401	CIVIC CENTER RENTS	Rental income
101.000.4402	RECREATION PROGRAM FEES	Charges for services
101.000.4403	POOL COLLECTIONS	Charges for services
101.000.4404	CONCESSION STAND COLLECTIONS	Charges for services
101.000.4405	PRICE PARK SHELTER FEES	Rental income
101.000.4406	EASTWOODS SHELTER FEES	Rental income
101.000.4407	WITWER PARK SHELTER FEES	Rental income
101.000.4500	MAYORS COURT COLLECTIONS	Fines and forfeitures
101.000.4501	POLICE DEPT COLLECTIONS	Fines and forfeitures
101.000.4599	INTERNAL GOVERNMENT	Other
101.000.4600	MISCELLANEOUS	Other
101.000.4601	CASH VARIANCE	Other
1 01.000.4602	C.R.A. ADMINISTRATION FEE	Other
101.000.4603	RENTAL- LEASE FEES	Rental income
101.000.4604	DEVELOPER CONTRIBUTION	Contributions
101.000.4700	INTEREST	Investment income
101.000.4800	PROCEEDS FROM SALE OF NOTES I BONDS	Bond proceeds

Account Code	Description	Classification
101.000.4900	TRANSFERS FROM TAX	Transfers in
101.000.4901	TRANSFERS FROM ISSUE 2	Transfers in
101.000.4902	TRANSFER FROM HOOVER DIST IMP	Transfers in
101.000.4903	TRANSFERS/MUNI ROAD	Transfers in
101.000.4950	PROCEEDS FROM SALE OF ASSETS	Sale of assets
101.000.4999	REVENUE CLEARING ACCOUNT	Other revenue

Below is summary of the general fund (fund 101) expenditure classifications per the accounting system compared to how they are reported in the financial statements.

Department #	Description	Classification
101	Police Department	Security of persons and property
102	Police Administration	Security of persons and property
103	School Patrol	Security of persons and property
105	Street Lighting	Security of persons and property
206	County Health District	Public health and welfare
307	Dogwood Shelter	Leisure time activities
308	Swimming Pool	Leisure time activities
309	Park Maintenance	Leisure time activities
310	Civic Center	Leisure time activities
311	Recreation Department	Leisure time activities
312	Recreation Program	Leisure time activities
413	Licenses and Permits	Community environment
414	Planning Commission	Community environment
415	Zoning and Building	Community environment
416	Economic Development	Community environment
517	Transportation	Transportation
618	Mayor's Office	General Government
619	Director of Administration	General Government
620	Director of Finance	General Government
621	Electronic Data Processing	General Government
622	Law Department	General Government
623	Council	General Government
624	Civil Service Commission	General Government
625	City Hall Maintenance	General Government
626	Engineering Department	General Government

Department #	Description	Classification
627	Other General Government	General Government
628	Transfers Out	Transfers Out
801	Debt Service	Principal and Interest

Below is summary of the object code classifications per the accounting system compared to how they are reported in the financial statements.

xxx.xxx.51xx	Personal services
xxx.xxx.52xx	Contractual services
xxx.xxx.53xx	Materials and supplies
xxx.xxx.54xx	Transfers out
xxx.xxx.55xx	Capital outlay
xxx.xxx.58xx	Principal and interest
xxx.xxx.59xx	Claims

Workpaper File REV - Reversals

Theory: Reversal entries are necessary to eliminate revenue and expenditure transactions that were accounted for in the previous year through asset and liability accruals that are included in the current year's cash activity.

Client Process: The City will obtain a list of prior year modified accrual journal entries as well as any audit adjustments that occurred in the previous year and account for the reversing activity in the current year trial balances. The reversing entries from the prior year will be applied against the cash activity of the current year to establish a base for presenting the current year information on a GAAP basis.

Fund financial statement reversing entries are reported in the "Reversal" file. Government-wide financial statement reversals are reported in the "GASB 34" file. Both sets of reversing entries are applied to the trial balances to report the financial activity to the proper fiscal year in accordance with GAAP.

Workpaper File #1 - Accrued Wages and Benefits

Theory: Accrued wages and benefits liabilities are obligations that have been incurred as of the balance sheet date but for which payment has not been made. Hours worked but not paid at December 31st are reported as accrued wages and benefits payable. Liabilities associated with the City's portion of any unpaid pension and Medicare are also calculated here if the work was done prior to December 31st.

Workers compensation premiums for the previous year are paid in the current year and must be recorded as a liability as of December 31st.

Client Process: The City will collect the first few pay registers for the current year and determine if any work was done in the previous year. The City will also collect the January employer pension payments that were for December. The City will prepare the workers compensation premiums for the previous year.

Workpaper File #2 - Consumable Inventory

Theory: Inventory items may be considered expenditures in governmental funds either when purchased or when used.

> ***Purchase Method***
> The purchase method charges supplies as an expenditure at the time of acquisition. Inventories on hand at year end are recorded as an asset with a corresponding nonspendable for inventory in fund balance indicating that the asset does not represent spendable financial resources.
>
> ***Consumption Method***
> The consumption method records inventory in the inventory accounts at acquisition and as an expenditure when used. The nonspendable fund balance need not be established unless a minimum amount of inventory must be maintained and is therefore not available for expenditure.

Inventory items are considered expenditures when purchased for governmental funds and are considered expenses of proprietary funds when consumed for the City financial statements. The government-wide statements also consider inventory items as expenses when used.

GASB 34 requires the accrual basis financial statements (government-wide financials) to utilize the consumption method. ***Therefore, the preferred method for modified accrual financial statements (fund financials) would be the consumption method, to eliminate the need for a reconciling item between the governmental funds statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.***

Client Process: The City will request a detailed list of consumable inventory balances as of December 31st from each department. The list will consist of the cost of each item and the quantity or amount each item to arrive at a dollar value of consumable inventory.

Workpaper File #3 - Long-Term Obligations

Theory: The principal amount of all unmatured capital related long-term debt for governmental activities of the City is reported as governmental activities general long-term debt. This debt is typically offset against capital assets and is reported as part of net investment in capital assets.

Since the government-wide statements are presented on the accrual basis of accounting, it is appropriate to record and amortize or accrete any significant premium and/or discount (including deep discount debt) on debt issued for governmental activities. It is also appropriate to recognize any gain or loss on any advance refunding of governmental activities debt. Interest expense for governmental activities should be recognized as incurred rather than when due in the governmental fund statements.

The interest rate on the bond is known as the stated rate. This rate is set by the City issuing the bonds and is expressed as a percentage of the par value, or face value, of the bond. If the bonds are sold for more than par value (at a premium) or less than par value (at a discount), the actual interest yield to the bondholder is less than or greater than the stated rate. This rate of interest actually earned by the bondholder is called the effective yield, or market rate, and is set by the investment market.

APB Opinion No. 21 requires that bond premium be reported in the statement of net position as a direct addition to the face amount of the bond. The premium would be amortized over the life of the bonds and would be charged to interest expense in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. However, other methods of amortization (such as straight-line) may be used if the results obtained are not materially different from those which would result from the effective interest method.

Using the effective interest method of amortizing premiums allows the interest cost for each period to be the effective interest rate multiplied by the book value of the bonds at the start of that period. The book value changes each period by the amount of bonds paid and the amount of premium amortized.

The issuance of bonds involves printing costs, legal fees, commissions, and other similar charges. According to GASB Statement No. 65, these items should be expensed in the year incurred.

The requirements of APB Opinions No. 12, Omnibus Opinion - 1967, and No. 21, Interest on Receivables and Payables, as amended, require deferral and amortization of debt issue premium or discount. These opinions may be applied prospectively to governmental activities in the statement of net position and the statement of activities, except for governmental activity debt that is deep-discount or zero-coupon debt. Similarly, Statement 23, which requires deferral and amortization of the difference between the reacquisition price and the net carrying amount of old debt in debt-refunding transactions, may be applied prospectively by governmental activities.

Compensated Absences

Compensated absences are subject to GASB Interpretation 6.

A liability would be accrued on a modified accrual basis only to the extent that the liability was "due and payable" at year end, meaning that an employee had resigned/retired prior to year end and had not been paid by year end.

The full amount of the compensated absence liability will now be reported on the restricted net position trials (full accrual) in the funds that will be scheduled to make the payments, with the corresponding expenses being reported in the activities (functions) scheduled to make the payments. The liability accounts will be split between "Long-Term Liabilities - Due within one Year" and "Long-Term Liabilities - Due in more than one Year".

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

The presentation in the notes to the financial statements must include the actual increases and decreases in the liability rather than the net effect on the balance of the liability.

Client Process: For long-term debt such as general obligation bonds, revenue bonds, and loans, the City will collect documentation on any new debt issued during the year. For compensated absences, the City will prepare a schedule with sick, vacation and comp time balances along with each employee's pay rate at December 31st. Employees hired before certain dates included in the City's policies and procedures are entitled to various amounts of payouts of sick leave. The City records a liability for any employee with more than ten years of service at the City.

Workpaper File #4 - Receivables

Theory: The purpose of this section of the plan is to identify those revenues which will generate a receivable on the balance sheet and to determine appropriate revenue recognition or deferral at year end. The easiest approach is to calculate the full accrual amount for the receivable and related revenue and then to defer the portion not received in the available period for the modified accrual basis.

If receivables are aggregated in the financial statements, the detail must be presented in the notes. For example, if net receivables are presented as one amount in the statements, accounts receivable, taxes receivable, special assessments receivable, and due from other governments would be broken out in the notes.

The City's available period is 31 days after year-end. Any receivable received during this period is recorded as revenue in the governmental funds. Any receivable received outside of this period will be recorded as a deferred inflow of resources in the governmental funds. A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. In enterprise funds, all receivables are recorded as revenue regardless of when received.

Transaction Types

Cities engage in two kinds of transactions as follows:

Exchange (and exchange-like transactions) - these transactions occur when each party receives or gives up essentially equal values.

Non-exchange transactions - these transactions occur when the City receives value without directly giving equal value in exchange.

The following classifies recurring City transactions as exchange or non-exchange and explains the appropriate accounting treatment for each.

Exchange and Exchange-like Transactions

In exchange transactions, each party receives or gives up essentially equal value. The GASB has also identified what are called exchange-like transactions in which the values exchanged may not be quite equal or in which the benefits to the transaction may not be exclusively for the parties to the transaction. Under the full accrual basis of accounting, a receivable and revenue are recognized when the portion of the transaction that is the City's responsibility is completed resulting in the revenue being earned to the extent the amounts is collectible and measurable. Under modified accrual, only amounts received in the available period are recognized as revenue. Amounts received outside the available period are deferred. The treatment of these items should be consistent from year to year.

Accounts Receivable

Water and Sewer charges:

The City assesses a sewer rental charge for collection services. All billings, collections and accounting related to this charge are handled by the City.

Charges for sewer rental are billed bimonthly for two months in arrears based on actual usage taken from meter readings taken by the City.

Sanitation Charges:

The City implemented a city-wide trash fee for all residents. Trash is billed bi-monthly for residents along with sewer charges. Businesses are billed monthly for trash pick-up.

Residents: The fee is one month in arrears. The City is split into two billing districts and 26 "cycles". Once the bills are sent, the residents have 30 days in which to pay their bills. Month to month billings vary due to there being more units in the even month billing district than the odd month billing district.

Business: The fee is one month in arrears. The bill is usually sent at the first of the month and payment is due within two weeks.

Delinquencies: All delinquencies are certified to the County Auditor. Once the City certifies the delinquencies to the County, this balance is then taken off the City's billing system and only current charges remain. Since these amounts are then attached to the tax bills for payment, all delinquencies are considered fully collectible by the City. The County then distributes the collections on the property tax settlement sheets. The City records the amount collected in the Sanitation fund. The County keeps track as to which delinquencies have and have not paid.

Permits:

Permits are paid for when received.

Tap-In Fees:

The City charges a fee for tap-ins throughout the City. The amount collected over the cost of the tap-in is recorded as a capital contributions.

Tap-In Fees Conversion Program

1. Identify all tap-ins performed during the year and the location of those tap-ins.

2. Net the cost of the tap-in against the amount collected for the tap-in.

3. Record and post accrual adjusting journal entry

Collectability of Accounts Receivable

The City collects overdue sewer and sanitation charges by certifying the delinquencies to the county auditor for collection as special assessments. This insures that these charges are collectible.

Special Assessments Receivable

Governmental funds are accounted for on a current resources measurement focus and use the modified accrual basis of accounting. At the end of the balance sheet year, an entry is made to record the entire amount remaining to be collected on the original levy as a receivable in the asset account "Special Assessments Receivable". All of the special assessment would be reported as deferred inflows of resources since the amount to be received in the available period is not measurable. However, when using the economic resources measurement focus and the accrual basis of accounting, the principal amount of the assessments would be recognized as revenue upon original levy, if collectible. Subsequent principal collections would be a reduction of the receivable. The portion of the collections representing interest should be recognized as interest as earned.

At year end, an entry will be made to record the amount remaining to be collected on the original levy as a receivable. The principal and interest estimated to be received in the available period will be recorded as current revenue, if the amount is measurable. Amounts received outside the available period along with delinquencies will be reported as deferred revenue. Confirmation of current assessments collected, current assessments due, delinquent collections and outstanding delinquencies at the balance sheet date need to be obtained from the County Auditor.

The portion of special assessments collected for the year that represents interest should be reclassified to interest and fiscal charges from special assessments assuming all cash collections were recorded as special assessments in the cash basis transactions.

For the accrual basis the deferred inflows of resources recognized in the debt service and special revenue funds would be recognized as revenue (charges for services or capital contribution, as appropriate).

Non-exchange Transactions

In non-exchange transactions, the City receives value from another party without directly giving equal value in exchange. Non-exchange transactions are grouped into the following four classes:

Derived tax revenues result from assessments imposed by governments on exchange transactions.

Imposed non-exchange revenues result from assessments by governments on non-governmental entities, including individuals, other than assessments on exchange transactions.

Government-mandated non-exchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation.

Voluntary non-exchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties.

An asset is recognized for nonexchange transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Other than property taxes, revenues should be recognized when the asset is recognized unless there are time requirements specified in the enabling legislation. If time requirements are specified, revenue should be recognized in the period when the resources are required to be used or when use is first permitted. Governments should recognize revenues from property taxes, net of refunds and uncollectible amounts, in the period for which the taxes are levied.

A detailed discussion of these four classes of non-exchange transactions follows, including receivable and revenue recognition criteria.

Derived Tax Revenues

An asset is recognized when the underlying exchange on which the tax is imposed occurs or when resources are received, whichever occurs first. Revenue is recognized in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. When modified accrual accounting is used, resources should also be available to be recognized as revenue. If not available, it is reported as deferred.

TAXES RECEIVABLE CLIENT PROCESS

Income Tax

An income tax of 1.5 percent is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to one hundred percent of the City's current tax rate.

The City's income tax ordinance requires a portion of the income tax revenues to be used to finance capital projects or acquire fixed assets and the remaining is unrestricted and is credited to the City's general fund.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

In accordance with the City Charter, any income tax ordinance must be approved by a majority vote at a City election prior to the ordinance becoming effective.

The City levies an income tax of 1.5 percent on all income earned within the City as well as income earned by residents outside the City. A credit is given for income taxes paid to other municipalities up to one hundred percent of the City's current tax rate.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly.

Collection process:

Employee withholding - Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City monthly for amounts withheld over $100 and quarterly for amounts withheld under $100.

Businesses - Tax returns are required to be filed annually by April 15. The City Income Tax Ordinance states that business must file quarterly estimates. Although, this is required by ordinance the City has chosen not to enforce this. Some businesses have chosen to pay quarterly estimates. Any losses a business may have in the current tax year cannot be carried forward to offset future gains.

Individual - Tax returns are required to be filed annually by April 15. Residents are given a credit of 100 percent up to 1.5 percent for taxes paid to other cities or villages.

Recognize as revenue all amounts of tax related to income paid (or earned) in the current year. Record a receivable for amounts not yet received.

Employee withholding - All employee withholdings are due one month following the end of the reporting period. For monthly or quarterly payments ending December 31, the payment is due by January 31 of the following year.

Business/Individuals - The report used is the "Year to Date Receipts by Tax Year" provided by the income tax department. This report shows the payments made in the current year by tax year. Therefore, if any delinquencies were paid in the current year for prior years, they would show up on the prior tax year line of the current run date report. Amounts shown on the current tax year line of the current run date report represents individuals/businesses that have chosen to pay quarterly estimates.

Imposed Nonexchange Revenue Transactions

The City should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable claim to the assets arises or when the assets are received, whichever occurs first. For property taxes, the date when an enforceable legal claim to taxable property arises is generally specified in the enabling legislation. That date is called the lien date or the assessment date.

They should recognize revenues from property, taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized in the period when resources are required to be used or when first use is permitted. Resources received or recognized as receivable before that time period should be reported as deferred inflows of resources.

Taxes Receivable

Property Taxes

A receivable is booked for property taxes when an enforceable legal claim has arisen. On the accrual basis, property taxes may not be recognized as revenue prior to the year for which they are levied. When modified accrual accounting is used, property taxed is recognized in the period for which the taxed are levied and are available. For this reason it is necessary to review the property tax calendar. Most of the calendar information that follows must also be disclosed in the notes to the financial statements.

Property taxes are levied and assessed on a calendar year basis.

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 20X1 for real and public utility property taxes represents collections of the 20X0 taxes. Property tax payments received during 20X1 for tangible personal property (other than public utility property) are for 20X1 taxes.

20X1 real property taxes are levied after October 1, 20X1, on the assessed value as of January 1, 20X1, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 20X1 real property taxes are collected in and intended to finance 20X2. Thus, the deferral of the receivable would also be appropriate for the accrual basis.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 20X1 public utility property taxes became a lien December 31, 20X0, are levied after October 1, 20X1, and are collected in 20X2 with real property taxes.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

The County Treasurer collects property taxes on behalf of all taxing districts in the county. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2000 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2000 operations. The receivable is therefore offset by deferred inflows of resources.

The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured because of the County's ability to force foreclosure of the properties on which the taxes are levied. However, for tangible personal property taxes (both current and delinquent), a determination of the percentage deemed uncollectible should be obtained from the county auditor's office. This percentage would be applied against the gross taxes receivable to yield the estimated net realizable value of such resources. An "Allowance for Uncollectible Property Taxes" would be set up as a contra account to the gross taxes receivable account if the percentage is significant. The amount of deferred inflows of resources would then be recorded as the net value of the two accounts. Any significant amount considered uncollectible would be disclosed in the notes to the financial statements.

On the accrual basis, any delinquent taxes that are considered collectible would be recorded as revenue rather than as deferred.

Government-mandated and Voluntary Non-exchange Transactions

For government-mandated and voluntary non-exchange transactions receivables and revenues are recognized when all eligibility requirements are met. When modified accrual accounting is used, resources should be available to be recognized as revenue (versus deferred). Eligibility requirements included one or more of the following:

Required characteristics of recipients. The recipient has the characteristics specified by the provider.

Time requirements: Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.) Sometimes a provider in a government-mandated or voluntary non-exchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a liability and an expense by the provider, and as a receivable and a revenue by the recipients, in the period when all applicable period for both the provider and the recipient is the provider's fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). The entire award should be recognized at that time.

Reimbursements: The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.

Contingencies: (Applies only to voluntary non-exchange transactions.) The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

If a grant has been received but the revenue recognition criteria have not been met, record the receipt as deferred inflows of resources.

Note disclosure regarding intergovernmental receivables is required if the amount is significant.

Local Government Fund

Allocation of the undivided local government fund (and library support fund) from the State Auditor to the County occurs monthly. The amount distributed represents revenue for the prior month. In December, the tax commissioner estimates and certifies the amount to be paid into the local government fund on the state level for distribution during the following calendar year. The Commissioner then determines the separate amounts to be distributed to each county during the following calendar year. Since this is not considered a time requirement, a six month accrual is appropriate. The State appropriates these distributions to the counties so resources are appropriated through June 30 (the end of the state's fiscal year).

Homestead and Rollback

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and a half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled home owners based on their income. The loss of real property taxes as a result of these reductions is paid by the State to the City following the February settlements and may be reflected on the property tax appointment sheets of the county auditor. These payments are received for each fund which has a tax levy and should be classified as intergovernmental revenue.

Like local government money, homestead and rollback have no specified timing requirements. Amounts are appropriated by the State to the Department of Taxation for disbursement. At December 31, the payment which follows the February settlement has been appropriated. Record a receivable and deferred inflow of resources on the modified accrual basis and revenue on the full accrual basis.

Motor Vehicle License Tax

Motor vehicle license tax levied by the State of Ohio on motor vehicles operated upon the public roads or highways is shared with other political subdivisions. Accordingly, the guidance of GASB Statement No. 36 would be relevant. It replaces paragraph 28 of Statement 33 with the following:

"On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state (provider) may share a portion of the revenues resulting from its sales tax with local governments. Both the provider and recipient governments should comply with the requirements of this Statement for voluntary or government-mandated nonexchange transactions, as appropriate. Because some recipient governments receive these shared revenues through a continuing appropriation, they may rely on periodic notification by the provider government of the accrual-basis information necessary for compliance. If notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued."

GASB 36 must be implemented with GASB 33 which must be implemented with (or before) GASB 34.

Tax revenues are distributed by the State to the City through an appropriation in the Auto Registration Distribution Fund. Since the eligibility requirements have been met and the State's fiscal year controls the appropriation of funds, it will be necessary to recognize a receivable for six months (January through June) of motor vehicle license tax payments, similar to the approach for local government money.

Gasoline Tax

Gasoline tax revenue is distributed monthly by the State of Ohio. These distributions would be accounted for as voluntary or government-mandated nonexchange transactions according to GASB 36, since they are a sharing of a state levied tax. Entries are necessary to recognize the receivable and intergovernmental revenue and deferred inflows of resources in the Motor Vehicle License and Gas Tax special revenue fund and the Street Construction Maintenance and Repair Fund and the State Highway Fund for six months of distributions (January - June).

Grants and Other Subsidies

Appendix C of GASB 33 provides a summary chart of the classes and timing of recognition of nonexchange transactions. That summary provides the same recognition criteria for government-mandated nonexchange transactions and voluntary nonexchange transactions (except contingencies) so we saw no need to classify grants between them. For those two types of nonexchange transactions, assets and liabilities should be recognized in the period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first. Revenues and expenses or expenditures should be recognized in the period when all eligibility requirements have been met.

Grant award is an indication that the required characteristics of recipients were met.

Review the time requirements for each grant to be sure they have been met.

If the grant is a reimbursement grant the revenue and related receivable should be recognized as allowable costs are incurred. If the grant is expenditure-driven (reimbursement type) with funds being advanced, any amount received for which allowable costs have not been incurred should be deferred rather than recognized as revenue.

Sometimes a provider in a government-mandated or voluntary nonexchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a liability and an expense by the provider and as a receivable and revenue (net of estimated uncollectible amounts) by the recipients, in the period when all applicable eligibility requirements are met (applicable period). When the provider is a government (including the federal government), the applicable period for both the provider and the recipients is the provider's fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). The entire award should be recognized at that time. However, if a provider government has a biennial budgetary process, each year of the biennium should be considered a separate applicable period. In those circumstances, the provider and the recipients should allocate one-half of the resources appropriated for the biennium to each applicable period, unless the provider specifies a different allocation.

Finally, if there are contingencies in the grant agreement for voluntary non-exchange transactions, such as matching fund requirements, we need to verify they have been met in order to recognize the receivable and related revenue.

Purpose restrictions specify the purpose for which resources are required to be used. Purpose restrictions should not affect when a nonexchange transaction is recognized. However, governments that receive resources with purpose restrictions should report resulting net position as restricted.

Client Process: The City will prepare schedules for the required amounts related to all receivables where the City earned revenue in the prior year but did not receive the money until the current year.

Workpaper File #5 - Accounts Payable

Theory: The recognition of expenditures/expenses in conformity with generally accepted accounting principles results in reporting current liabilities (payables and accruals) at fiscal year-end. Liabilities result when the City has not yet paid for goods or services received as of December 31st. The recognition of the liability, for both governmental and proprietary funds, occurs on the date that the goods or services are provided. However, the resulting expenditure/expense for governmental and proprietary funds differs. In governmental funds, the expenditure represents the cost to acquire the goods or services whereas in proprietary funds, the expense represents the cost of those goods or services consumed.

In order to determine accounts payable at the end of each fiscal year, the City will have to review all vouchers paid for sixty to ninety days after the balance sheet date. Management may establish both the time period and the minimum dollar value of the vouchers to be reviewed. The review focuses on the invoice date or the date that services were rendered and the amount encumbered and the amount paid for the obligation. The payables disclosed in the review are generally classified as accounts payable, contracts payable, intergovernmental payable, or interfund payable. The review may be conducted either after the review period has elapsed or during the review period as vouchers are processed. The review process can be done electronically if the computer system can identify those payments made during the review period which were invoiced or for which goods were received in the prior fiscal year.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

On the GAAP basis, encumbrances outstanding at year end are reported as restricted, committed, or assigned fund balance. GASB Statement No. 54 identifies encumbrances with unassigned fund balance should be reclassified as committed or assigned fund balance depending on the process by which amounts are encumbered. With GASB Statement No. 54, encumbrance reclassification is only necessary in the General Fund. The General Fund is the only fund that will show unassigned fund balance. Encumbrances, if significant, should be disclosed in conjunction with other disclosures of significant commitments.

Client Process: The City will review all checks paid in the current year through the end of February to determine if the payment was for services provided in the prior year. The City will also review significantly large checks in March to determine if they should be recorded as a payable.

Workpaper File #6 - Interfund Activity

Theory: Interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) should be classified and reported as follows:

1. Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. It includes:

    A. Interfund loans are amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

    B. Interfund services provided and used are sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds.

2. Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. It includes:

    A. Interfund transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are reasonably equivalent in value to, services provided. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers should be reported as nonoperating revenues and expenses.

    B. Interfund reimbursements are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified as explained below.

Internal Balances - Statement of Net Position

Eliminations should be made in the statement of net position to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as interfund receivables and payables should be eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the statement of net position as receivable from and payable to external parties (consistent with the nature of fiduciary funds), rather than as internal balances. All internal balances should be eliminated in the total primary government column.

Internal Activities - Statement of Activities

Eliminations should be made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events (such as allocations of accounting staff salaries) that are, in effect, allocations of overhead expenses from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated.

The effect of interfund services provided and used between functions (for example, the sale of water or electricity from a utility to the general government) should not be eliminated in the statement of activities. To do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

Client Process: For transfers and advances, the City will prepare a list of activity and make sure these amounts were properly approved by Council.

For activity involving the internal service fund, a spreadsheet should be prepared to eliminate the operating income recognized in the internal services fund. In addition to eliminating the operating income (or loss), the operating expenses in the internal service fund should be offset against the operating revenues so the remaining expense is recognized in the function for which the expenses were incurred. This activity is accounted for in the GASB 34 file.

This elimination should be done proportionately to the charges to the various activities by the internal service fund. For example, if the charges to Police were 10% of the total charges to all activities. Police would get 10% of the operating income credited back or would be charged 10% of the operating loss.

See the Notes to the Financial Statements for GASB 38 disclosure requirements regarding interfund receivables and payables and transfers.

Workpaper File #7 - Prepaid Assets

Theory: The City enters into certain types of contracts for which services extend over more than one accounting period. This prepayment creates an asset. The following is a list of the type of contracts that need to be reviewed: insurance, computer maintenance, telephone, copier, and other equipment. The full accrual basis of accounting (government-wide financial statements) requires that all prepaids be recorded. It is recommended that prepaids be recorded on both the modified and full accrual statements.

Client Process: The City will review all potential prepaids where payments were made prior to December 31st but service may not be provided until the next year.

Workpaper File #8 - Reclassifications/Miscellaneous

Theory: The reclassification/miscellaneous section allows for various entries that may not be appropriate in other sections of the workpapers. In this section, any entries to reclassify cash receipts/disbursements not properly booked in the City's system may be recorded here. This section also allows for the City to record an entry to assign a portion of the general fund's fund balance for appropriations for the subsequent year that exceed estimated receipts (not resources) under GASB Statement No. 54.

Client Process: The City will review cash reports and determine if there are any reclassification entries necessary.

The City will also prepare and collect the subsequent year's appropriations and first certificate of estimated resources and determine if an assignment of fund balance is necessary.

Workpaper File #9 - Capital Assets

Theory: Capital assets are those assets, such as land, buildings, improvements other than buildings, infrastructure, vehicles, machinery and equipment, of a long term character (initial useful lives extending beyond a single reporting period) which are used in operations. The distinctive nature of governmental financial operations requires capital assets to be accounted for either within the proprietary (or trust) funds or within the governmental activities.

Accounting for Capital Assets

A clear distinction should be made between fund capital assets and general capital assets. Capital assets related to specific proprietary funds or, if applicable, trust funds should be accounted for through those funds. All other capital assets of a governmental unit should be accounted for as general capital assets for governmental activities.

General Capital Assets

General capital assets do not represent financial resources available for expenditure, but are items for which financial resources have been used and for which accountability should be maintained. They are not reported as assets of any fund but are reported as assets of governmental activities.

Fund Capital Assets

The capital assets of proprietary and trust funds are accounted for within the fund itself. Fund capital assets are not limited to those assets acquired with fund resources but can include assets that are donated and/or purchased with governmental fund resources. In the year of acquisition of such assets, capital contribution (a nonoperating revenue) is credited for donations from customers or contractors and entitlements or grants designated solely for capital acquisition, while transfers in are credited for additions received from general governmental resources.

Infrastructure

Infrastructure assets are long-lived capital assets that are normally stationary and that can be preserved for a significantly greater number of years than most capital assets.

General infrastructure assets are infrastructure assets that are associated with and generally arise from governmental activities. Currently this includes roads, bridges, storm sewers, water lines and sewer lines for the City.

Estimated Costs

The initial cost of capital assets is available from contracts, purchase orders, ordinances, vouchers, and other documents obtained through the transaction process. However, determining the historical costs after many years can be difficult. In such situations, the original purchase documents may not be available, or an excessive amount of time may be necessary to establish exact historical cost. Therefore, it may be necessary to estimate the historical cost by indexing current cost figures back to the estimated year in which the asset was acquired, and to record these estimated costs in the appropriate capital asset accounts.

The recording of capital assets at an estimated cost presents some margin of error into the capital assets accounts. These errors will have only a short run effect because, as older assets are retired and replaced, the estimated costs are replaced by properly recorded actual cost amounts. The extent to which capital asset costs have been estimated, and the methods of estimation, should be disclosed in the notes to the financial statements.

Capitalization of Interest

GASB 37 prohibits capitalizing interest for governmental capital assets, so this is only relevant for proprietary or trust fund assets.

Depreciation of Capital Assets

Depreciation is an element of expense. It is a method of allocating the cost of a tangible capital asset, less salvage value, over the estimated useful life of the asset. Depreciation is an important element of the income determination process. Therefore, it is recognized in the proprietary funds and in the statement of activities for both governmental and business-type activities.

1. Depreciation of general capital assets should not be recorded in the accounts of governmental funds. Depreciation of general capital assets, including infrastructure, shall be recorded in governmental activities through the consolidation trial balance.

2. Depreciation of capital assets accounted for in a proprietary or trust fund should be recorded in the accounts of that fund.

Basic Financial Statements

1. Amounts of both general capital assets and fund capital assets at the beginning and end of the year being reported need to be classified by asset type (or example land, building, machinery and equipment, etc.) and by activity and fund.

2. Calculation of depreciation for the year being reported and accumulated depreciation at the beginning and end of the year being reported should be classified by asset type, and by activity and fund.

3. The enterprise and trust fund capital assets and depreciation expense are required to be reported by fund.

4. Capital asset additions and deletions during the year being reported should be classified by general capital assets or fund capital assets, by asset type, and by activity and fund.

5. Identify the change in construction in progress during the year being reported.

6. Identify the information regarding leased assets.

7. Identify transfers made during the year.

8. Identify the source of revenue used to acquire capital assets as either the fund itself or some other source. Note the account from which it was purchased and summarize by line item as they will appear on the financial statements.

9. Identify gain or loss on disposal of any capital assets.

Information Required to Track Capital Assets

Specific information will have to be included in the City's records to provide the necessary capital asset reporting information. This information includes:

Specific asset identification (tag number).
Actual or estimated historical cost.
Year of acquisition of asset.
Useful life of asset.
Salvage value of asset, if applicable.
Location of asset.

Classification by function that is currently utilizing the asset.
Classification by major asset class and between depreciable and non-depreciable assets (i.e. land, building, vehicles, etc.)
Capital asset additions during the reporting year by fund and account.
Capital assets disposed of during the reporting year and the amount of any gain or loss.
Changes in construction in progress during the reporting year.
Identification and information regarding leased assets.
Accumulated depreciation at beginning of reporting year by account and asset type.
Depreciation expense by function and asset type for reporting year.
Identification of gain or loss on disposal of any capital assets.

General Capital Assets Conversion Program:

1. The City should review the existing fixed asset accounting policies. These policies should be updated to reflect the specific changes in reporting for capital assets as detailed above. The following is a summary of information that could be included:

   A. The criteria to be met before an asset will be accounted for as a capital asset in terms of useful life and threshold dollar amount.
   B. The method to be used to determine the costs (actual and estimated) of capital assets.
   C. How assets are to be identified assigning asset numbers, location, asset type, description, tagging, etc.
   D. When a newly acquired or constructed capital asset is to be recorded in the capital asset records.
   E. The costs to be included in the cost of acquiring or constructing the capital asset.
   F. The City's policy for computing depreciation.
   G. Whether the cost of replacing a capital asset should be maintained by the system, how it should be determined, how often it should be revised and by whom.
   H. Policies regarding the sale, trade or other disposal of capital assets.
   I. Under what circumstances transfers of assets between departments or buildings are permitted.
   J. If the existence of a maintenance agreement is to be included in the capital asset information.
   K. If capital asset values are to be maintained for insurance purposes.
   L. Under what conditions the City will report a leased asset as a capital asset with a corresponding liability for the lease payments.

Other asset policy issues are identified and discussed in the Auditor of State's capital assets handbook.

2. A summary of the changes in governmental and business-type capital assets during the year by asset type and function is required. The summary should be supported by sufficient documentation to provide substantiation of the additions and deletions (including any gains or losses, rather than proceeds from the sale of assets).

   A. Additions to general capital assets can be determined through analysis of expense accounts and capital expense objects.

   B. The additions for governmental capital assets will be reported on the capital asset worksheet.

   C. Deletions to general capital assets can be determined through analysis of the revenue account "sale of fixed assets" on the cash basis records of the City as well as through the review of Council minutes, and discussions with personnel regarding disposal of capital assets.

   D. The deletions for governmental capital assets will be reported on the capital asset worksheet.

Note: If the proceeds were greater than the book value of the asset, a credit would be posted to the "Gain on Sale of Capital Assets" account (reported as a general revenue).

3. Depreciation expense for end of year governmental and business-type activities is required to be reported by asset type and function.

   A. The depreciation expense for governmental capital assets will be reported on the capital asset trial worksheet. The amounts from the worksheet will then be posted to the appropriate columns on the end of year consolidated trial balance.

4. Prepare information required in the notes to the financial statements.

The change in general capital assets during the year is presented in the notes to the financial statements along with depreciation expense by function.

Client Process: The City will review expenditures during the year to determine if assets need to be added to the City's capital asset system. The City will also determine if any capital asset were donated and will need to be added to the capital asset system as well. The City will also review any disposals made during the year and remove them from the capital assets system. The City will also consult with other departments (i.e. the City Engineer) about construction projects going on in the City.

Workpaper File #10 - Cash and Investments

Theory: This section will summarize the City's cash balances by fund for the year, provide note disclosure support for the cash footnote and record accrued interest receivable. The cash footnote will follow the requirements established in GASB Statement No. 40.

1. GASB 33/36 must be implemented for accrued interest receivable. The amount of accrued interest receivable must still be calculated for all interest bearing deposit accounts and investment instruments at year end. Accrued interest represents the amount of interest earned during the prior fiscal year but received in the following fiscal year. Accrued interest on interest bearing deposit accounts equals the interest earned by year end but not posted to the account by the bank until after year end. December interest posted by the bank in December but not posted to the City's records until January should be included in the financial statements as cash and cash equivalents rather than interest receivable. The calculation of the receivable remains the same, with corresponding credit being posted to Interest Income (if it was actually received within the available period) or Deferred Inflows of Resources (if it was actually received outside of the available period).

Client Process: The City will prepare a cash position report by fund for the year and will collect the bank reconciliation at year-end along with all year-end bank/investment statements. Investment statements will be used to determine if any accrued interest receivable will be recorded.

Workpaper File GASB34 - GASB 34 Journal Entries & Program Revenues

Theory: This section allows journal entries to be posted that are required under GASB Statement No. 34 to convert the financial statements from the modified accrual basis of accounting to the full accrual basis of accounting. This section assists in converting the governmental fund balance sheet to the statement of net position and the statement of revenues, expenditures and changes in fund balances to the statement of activities. Activity in this section was calculated in the previous sections. This section also includes detail on the program revenues for the statement of activities.

PROGRAM REVENUES

Theory: Program revenue is a term used in connection with the government-wide statement of activities. They are revenues that derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole. They reduce the net cost of the function to be financed from the government's general revenues.

Generally accepted accounting principles require that the government-wide statement of activities be presented using a net-cost format. That is, in the statement of activities, outside revenues directly related to individual functions (user fees and charges, restricted grants, and contributions) are to be presented as a reduction of the net cost for providing program services. This format enables a government to arrive at the net amount of program cost to be financed from the government's own resources.

Governments frequently dedicate a portion of their own resources to support specific functions. Such amounts do not constitute program revenues, despite their close relationship with specific functions. Therefore, to avoid any potential confusion, generally accepted accounting principles (GAAP) require that a government describe in the summary of significant accounting polices the types of transactions that are reported as program revenues.

Some functional activities are financed, in whole or in part, with resources obtained from parties outside the government. GAAP require that such program revenues be presented separately as a reduction of the total expense of the benefitting functional activities to arrive at the net expense of each.

Program revenues include the following:

Amounts received from those who purchase, use, or directly benefit from a program.

Amounts received from parties outside the reporting entity's citizenry (such as grants and contributions) that are restricted to one or more specific programs. For multipurpose grants, the amount attributable to each program must be identified in either the grant award or the grant application to qualify as program revenues. Reimbursement-type multipurpose grants automatically meet this test. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues.

Earnings on investments that is legally restricted for a specific program (such as certain endowments and permanent funds or invested grant proceeds).

The statement of activities should separately report three categories of program revenues: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. These three categories may be split further by specific sources of program revenues under the three broad categories.

Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Revenues in this category include fees charged for specific services, such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Payments from other governments that are exchange transactions should be reported as charges for services.

Charges for services should be reported separately from grants and contributions in the function in which they are generated, even if they are used for some other purpose. Thus lottery revenues would be reported in the function responsible for the lottery, even if the revenues were dedicated to another function (for example, education). Fees and charges do not need to be restricted to the function which generates them.

Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Those restrictions must either be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or be imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation.

Operating grants and contributions should be reported separately from capital grants and contributions. Grants or contributions that can be used for either capital or operating purposes should be treated as operating grants or contributions. Reimbursements of indirect costs by grantors should be reported in the same functional category as the expenses being reimbursed (for example, general government).

It is important to note that all taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax - for example, sales tax, property tax, franchise tax, or income tax. The taxes can be classified by the purposes for which the taxes were levied. For this purpose, special assessments are not considered taxes, even if collected in connection with the property tax levy. Rather, operating-type special assessments should be treated as charges for services and capital-type special assessments should be treated as capital grants and contributions. Likewise, fines and forfeitures should be treated as charges for services rather than as taxes.

All revenues that do not qualify as program revenues should be reported as general revenues. General revenues should be presented immediately following the total net expense of the government's functions.

Gains on the sale of capital assets, if material, should be reported as general revenue. Immaterial gains may be handled as an adjustment to the current period's depreciation expense. Losses are not allocated to functions since they are not considered direct expenses.

Contributions to term endowments, permanent endowments, and permanent fund principal should be presented as a separate line item, immediately following general revenues. For this purpose, no distinction is necessary between term endowments and permanent endowments, even though the two are distinguished on the government-wide statement of net position, where amounts associated with permanent endowments are classified separately as restricted assets - nonexpendable.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. Earnings from endowments or permanent funds that finance general fund programs or general operating expenses should not be reported as program revenue. Similarly, earnings on investments not held by endowments or permanent funds may be legally restricted to specific functions or programs. For example, interest earnings on state grants may be required to be used to support a specific program. When earnings on the invested accumulated resources of a program are legally restricted to be used for that program, the net cost to be financed by the County's general revenues is reduced, and those investment earnings should be reported as program revenues.

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Special and extraordinary items should be reported on a separate line after endowment and permanent fund contributions. If special items and extraordinary items occur in the same period, the two should be reported separately within a single category, with special items reported before extraordinary items. In addition, governments should disclose in the notes to the financial statements any significant transactions or other events that are either unusual or infrequent but not within the control of management.

Transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers between governmental activities and business-type activities is the last item reported on the government-wide statement of activities before the total change in net position.

IDENTIFYING PROGRAM REVENUES

Background

State of Ohio and Ohio local governments maintain daily records on a cash basis
State and local governments convert to GAAP at year end through journal entries
Conversion is documented through trial balances on spreadsheets
Trial balances are created for each governmental fund

The accounting systems we encounter do not specifically code program revenues nor identify the associated function

What we try to provide
- Conversion programs that are generally applicable to Ohio local governments

Detailed programs, with an understanding that program may shrink as understanding and experience grows

Necessary information
- Identify specific transactions that generate program revenues
- Calculate revenue amounts on full accrual basis
- Associate each transaction with appropriate function
- Classify program revenues by type
- Accumulate program revenues by type and function

Two methods are available
- One generates information at the governmental activities level (entity wide)
- The second approach begins at the fund level using trial balance information

FIRST METHOD

Identification
- Familiarize reviewer with definition and examples
  - Exchange transactions - special assessments, interest
  - Exchange-like transactions - licenses, permits
  - Nonexchange transactions - grants and contributions
- Review revenue report and extract known and potential transactions that generate program revenues
- Research potential transactions for program revenue determination
- Finalize list of program revenue transactions

Calculation
- Identify annual cash receipts for each type of transaction
- Adjust cash amounts to full accrual

Association
- For each transaction, identify associated function
  - Derive from the program
    - Identify department where receipts originate (which generate the revenue)
  - Program specific operating and capital grants
    - Purpose restrictions should be obtained from grant documentation

Classify transactions by program revenue types

Charges for goods and services

Operating grants and contributions

Nonspecific grants

Capital grants and contributions

Accumulation

Create worksheet to accumulate results for posting to statement of activities

Potential efficiencies:

Coordinate with GASB 33 restatement process

Document program revenue type and associate revenue to a particular function while gathering receivable documentation

Having been done once, research will only need to be updated for changes in future years

SECOND METHOD

Identify program revenues by reviewing components of receipt classifications (charges for services, intergovernmental) that may contain program revenues at the fund level

Calculate revenue amounts on full accrual basis

Associate program revenues with related function

Classify program revenues by type

Accumulate results for posting on statement

Potential efficiencies:

For many funds, components of receipt classifications will already be known from receivable work or familiarity with the type of government

Revenue adjustments will also be known from receivable work

Most funds will only have one function

Type of fund and receivable work will identify program revenue type

Results can be appended to the trial and accumulated by fund

PROGRAM REVENUES CONVERSION PROGRAM

1. Determine the detailed program revenue classifications to be reported under the three broad categories of program revenues.

2. Prepare a list of program revenues by reviewing the detailed receipts ledger and receivables work papers section of the County for all funds with more than one transaction types.

   A. Post to the program revenue worksheets.

3. Determine the cash activity, by detailed program revenue classification, to be posted to the appropriate program revenue worksheet.

4. Determine the modified accrual and the full accrual entries, by detailed program revenue classification, to be posted to the appropriate program revenue worksheet.

5. For funds with a single transaction type the program revenue may be reported in the right hand columns of the restricted net position trial without being tracked separately tracked in a program revenue worksheet. Documentation for the justification of the assignment of the transaction type should be maintained.

Workpaper File BVA - Budget vs. Actual Statements and Schedules

Theory: Generally accepted accounting principles require either the presentation of budgetary comparison statements for the general fund and each major special revenue fund in the basic financial statements or as schedules as required supplementary information (RSI). Cities are encouraged to present budgetary schedules for any major debt service or capital projects funds, any nonmajor special revenue, debt service, or capital projects funds, and any proprietary or trust funds in addition to those required by GAAP. Cities participating in the GFOA certificate of excellence program are required to present budgetary statements or schedules for all governmental funds that are legally required to be budgeted annually.

The purpose of budgetary statements or schedules is to demonstrate compliance (or non-compliance) with state statute. The statements are therefore presented using the basis of accounting that is prescribed by state statute and are prepared subject to reclassification using the amounts as they appear on the books of the City after the year end closing. GASB Statement No. 34 also requires reporting the original budget as well as the final budget for the general fund and each major special revenue fund in the RSI (if not presented in the basic financial statements). In addition it requires that an analysis of significant variances between original and final budgets and between final budget amounts and actual budget results for the general fund be included in management's discussion and analysis. The analysis should include any currently known reasons for those variances that are expected to have a significant effect on future services or liquidity. It would be advantageous to keep these requirements in mind and to compile the information for the analysis as the statement or schedule is being prepared.

Statement 34 establishes standards for the basic financial statements, MD&A, and certain RSI other than MD&A. It does not prescribe requirements for data presented as supplementary information - combining and individual fund statements and statistical information, for example. Governments that present additional budgetary comparisons as supplementary information may choose to, but are not required to, present that information in accordance with the provisions of paragraphs 130 and 131.

Statement or Schedule Presentation

Each budgetary comparison statement or schedule may have four columns of figures. The first column will be labeled "original budget", the second "final budget", the third "actual", and the fourth "variance". In the budget columns, the revenue figures represent the amounts from the certificates of estimated resources that were in place at the time the original budget is passed and the end of the year.

The original budget is the first complete (intended to finance the entire year) appropriated budget. The original budget should also include actual appropriation amounts automatically carried forward from prior years by law.

The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, passed prior to year end.

Budgetary information will be presented by individual fund and will no longer be combined by fund type. The level of presentation for revenues will stay the same; the level of reporting for expenditures must match the level at which the commissioners adopt appropriation measures, i.e. program (public safety)/department (police)/object (personal services, supplies and materials, contractual services, fringe benefits, capital outlay and other).

Each budgetary comparison statement or schedule will include two fund balance figures, one as of the beginning of the year being reported on and one as of the year end. The purpose of the budgetary fund balance figure is to identify the amount remaining that is available for appropriation in the upcoming year. The budgetary fund balance figure that appears on each budgetary comparison statement will be cash minus encumbrances outstanding at year end.

In order to leave an audit trail, it is recommended that a worksheet be developed to compile the budgetary information.

Determine appropriate revenue figures to present in the budget to actual comparisons:

Budget: Obtain a copy of the certificate of estimated resources in place at the time the budget was adopted and the last amended certificate requested by the City before year end. The total estimated available resources (less the balance at the beginning of the year) listed on the certificate should be the sum of the budgeted "total revenues" and the budgeted "other financing sources" found on the City's budgetary worksheets. The budgetary worksheets should reflect revenue by source; however, the certificate lists these amounts by fund only. To obtain the amounts at the detail needed for budgetary presentation, the estimated receipts from the receipts report which compares actual receipts to estimated receipts at the source level can be used provided the estimated receipts if this report ties to the final amended official certificate of estimated resources (less the balance at the beginning of the year) requested by the City before year end. If these two reports do not agree, adjust the estimated receipts on the receipt report to the certificate amount.

Actual: Obtain a copy of a revenue report that identifies actual year to date revenues by fund and source.

Determine appropriate figures to be reflected as budget and actual expenditures:

Budget: Obtain a copy of the annual appropriation ordinance together with any amendments and modifications approved by the council before year end. The budgetary statement figures will equal the current year appropriation figures from the appropriation ordinance plus the amount of carry over encumbrances from the prior year.

Actual: Obtain a report that shows actual expenditures at the departmental object level within each fund. The actual figures on the budgetary statements will equal the sum of all expenditures made during the year plus the encumbrances outstanding at year end.

Budget to GAAP Reconciliation: A note to the basic financial statements showing the adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis is required for the general fund and each major special revenue fund.

Client Process: The City will collect the first amended certificate of estimate resources and final estimated certificate of estimated resources along with the first permanent appropriations for the year and any subsequent appropriation measures.

Workpaper File RPT - Report File

Theory: Notes to the financial statements are an integral part of the basic financial statements and should immediately follow them. The notes include explanations and interpretations of factors not present in the statement's captions and amounts, thus providing a better understanding of the basic financial statements for external users.

The notes to the financial statements are not to be cluttered with unnecessary and immaterial disclosures. They are not used to correct or change amounts, present alternative information or be so detailed that they obscure the facts and circumstances being described.

NCGA Statement 1 identifies the minimum note disclosure essential for fair presentation of the GPFS. In addition, Statement 1 identifies several additional areas for disclosure, if applicable. The topical index for the Codification of Governmental Accounting and Financial Reporting Standards lists various note disclosure requirements by subject matter (under the listing "Notes to the Financial Statements") and the original pronouncement that initiated those requirements, along with any related codification reference. GASB Statement No. 34 and Statement No. 38 also provide some note disclosure requirements. The outline below indicates both the required and additional disclosures that may appear in the City's notes to the financial statements.

1. Criteria used to determine the scope of the reporting entity and component units combined to form the reporting entity, including key criteria considered

    A. Disclosure on potential component units meeting any of the criteria but are not included in the reporting entity. Specific reasons are required to be disclosed for excluding the component unit.

2. Summary of significant accounting policies including:

    A. Basis of presentation
        1) Government-wide Financial Statements
        2) Fund Financial Statements
    B. Fund Accounting
        1) Governmental Funds
        2) Proprietary Funds
        3) Fiduciary Funds
    C. Measurement Focus
        1) Government-wide Financial Statements
        2) Fund Financial Statements

- D. Basis of Accounting
  - 1) Revenues - Exchange and Non-exchange Transactions
  - 2) Deferred Outflows and Inflows of Resources
  - 3) Expenses/Expenditures
- E. Budgetary process (GASB 38 rescinded this requirement)
  - 1) Description of the budgetary process
  - 2) Which funds appropriated budgets have been adopted
  - 3) Tax Budget
  - 4) Estimated Resources
  - 5) Appropriations
  - 6) Budgeted Level of Expenditures
  - 7) Lapsing of Appropriations
  - 8) Encumbrances
- F. Cash, Cash Equivalents, and Investments
- G. Inventory
- H. Prepaid Items
- I. Capital Assets
- J. Interfund Balances
- K. Compensated Absences
- L. Accrued Liabilities and Long-term Obligations
- M. Fund Balance
- N. Net Position
- O. Operating Revenues and Expenses
- P. Contributions of Capital
- Q. Interfund Activity
- R. Extraordinary and Special Items
- S. Estimates

3. Changes in Accounting Principles and Restatement of Prior Year's Net Position/Fund Balance
   - A. Changes in Accounting Principles
   - B. Restatement of Net Position/Fund Balances

4. Budgetary Basis of Accounting

5. Accountability and Compliance (if applicable)
   - A. Material violations or finance related legal and contractual provisions
   - B. Deficit fund balance or net position of individual funds including how the deficit will be relieved

C. Excess of expenditures/expenses over appropriations in individual funds at the level of budgetary control, if any, and explanations including remedial action planned by or required of the City

6. Deposits and Investments
   A. Statutory requirements and definitions
   B. Cash on Hand
   C. Investments
   D. Reconciliation between GASB 40's definition of deposits and investments.

7. Receivables

8. Capital Assets (GASB 34 requirements)

9. Risk Management The process of managing an organization's activities to minimize the adverse effects of certain types of losses. The main elements of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to restore the economic damages of those losses.) (GASB 10)
   A. Names of the companies the City is insured with
   B. The types of insurance coverage the City has
   C. The amounts of deductible for all coverages
   D. Any limitations on coverages
   E. Worker's Compensation coverage
   F. Employee Health Insurance Fund

10. Defined Benefit Retirement Plans
    A. Public Employees Retirement System
    B. Ohio Police and Fire Pension Fund

11. Postemployment Benefits
    A. Public Employee Retirement System
    B. Ohio Police and Fire Pension Fund

12. Compensated Absences (GASB Interpretation 6)

13. Capital Leases - Lessee Disclosure (GASB Statement 38)

14. Long-Term Debt (GASB Statement 38)

15. Notes Payable (GASB Statement 38)

16. Due to/from Other Funds (if applicable)

17. Related Organizations

18. Contingent Liabilities

19. Related Party Transactions

20. Component Unit

21. Significant effects of subsequent events
    A. Significant new bond issue
    B. Bonds issued to retire notes
    C. Change in entity
    D. Newly negotiated union contract
    E. Fire, flood or other natural disaster

The areas for note disclosure which are listed above may not be all inclusive nor are they intended to replace professional judgment in determining disclosure for the fair presentation in the existing circumstances.

NCGA Statement 1 also describes narrative explanations that relate to individual fund financial statements and schedules. These narratives provide information not included in the financial statements, the notes to the financial statements nor the schedules that are necessary: (a) to assure an understanding of the combining and individual fund and account group statements and schedules, and (b) to demonstrate compliance with finance related legal and contractual provisions. The narrative explanations can appear on the divider pages, directly on statements and schedules or in a separate section.

GASB 34 Note Requirements

Governments should provide these additional disclosures (if applicable) in their summary of significant of significant accounting policies based on the requirements of this Statement:

1. A description of the government-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.

2. The measurement focus and basis of basis of accounting used in the government-wide statements.

3. The policy for eliminating internal activity internal activity in the statement of activities.

4. The policy for applying FASB pronouncements issued after November 30, 1989, to business-type activities and to enterprise funds of the primary government (now GASB Statement No. 61).

5. The policy for applying capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense). Governments that choose to use the modified approach for reporting eligible infrastructure assets should describe that approach.

6. A description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities.

7. The government's policy for defining operating and nonoperating revenues of proprietary funds.

8. The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net position. The information disclosed should be divided into major classes of capital assets and long-term liabilities. As well as between those associated with governmental activities and those associated with business type activities. Capital assets that are not being depreciated should be disclosed separately from those being depreciated.

Information presented about major classes of capital assets should include:

1. Beginning and end of year balances (regardless of whether beginning of year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost.

2. Capital acquisitions

3. Sales or other dispositions

4. Current period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

For collections (works of art and historical collections) not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, governments should make the same disclosures just noted for capital assets.

Information about long-term liabilities should include both log-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences and claims and judgments). Information presented about long-term liabilities should include:

1. Beginning and end of year balances (regardless of whether beginning of year balances are presented on the face of the government-wide financial statements).

2. Increases and decreases (separately presented).

3. The portions of each item that is due within one year of the statement date.

4. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgement. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

Note disclosures should include the following information about donor restricted endowments:

1. The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board, and how those amounts are reported in net position.

2. The state law regarding the ability to spend net appreciation.

3. The policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

GASB 38 Note Requirements

Areas affected by requirements in GASB 38 include:

1. Disclose the activities accounted for in the major funds, internal service funds and fiduciary fund types presented in the basic financial statements.

2. Disclose the length of time used to define available for purposes of revenue recognition in the governmental fund financial statements.

3. Rescind the requirement in NCGA Statement 1, paragraph 92, to disclose the accounting policy for encumbrances.

4. Disclose actions taken to address any significant violations of finance-related legal or contractual provisions.

5. Disclose principal and interest requirements to maturity. These should be presented separately. Variable rate interest requirements are also addressed.

6. Disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for obligations under capital and noncancelable leases.

7. Disclose details about short-term debt activity during the year, even if no short-term debt is outstanding at year end. These include a schedule of changes in short-term debt and the purpose for which the short-term debt was issued

8. Disclose components of aggregated receivable and payable balances reported on the statements of net position and balance sheet. For example, components may include balances due to or from taxpayers, other governments, vendors, customers, beneficiaries, and employees. Disclose any significant receivable balances not expected to be collected within one year of the date of the financial statements.

9. Disclose certain details about interfund balances and transfers reported in the fund financial statements. Balance disclosures include amounts, purposes, and any balances not expected to be repaid within one year of the date of the financial statements. Transfer disclosures include amounts, purposes and any significant transfers that do not occur on a routine basis or that are inconsistent with the activities of the fund making the transfer.

Client Process: The City will review the prior year notes and update information for any possible new organizations that need to be disclosed. The City will obtain certain information related to risk management, property tax assessed values as well as other items to complete the notes to the basic financial statements.

GASB Statement No. 54 Fund Balance Classifications

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies (resolutions) of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The chart on the next page summarizes the funds of the City and how they are classified under GASB Statement No. 54.

Client Process: The City will review the funds each year and determine if there has been a change on any revenue constraint in the funds that may change the fund balance classification.

CITY OF NORTH CANTON
GASB 54 Fund Classification - Analysis of Governmental Funds

Prior GAAP Fund Type	Fund #	Fund Name	Primary Revenue Source(s)	Source of Constraint/ Purpose/Restriction	Type of Constraint	Fund Balance Classification	Restricted or Commited for:	Fund Reclassification
General	101	General Fund	Various sources	None	None	Unassigned		No
General	203	Income Tax Fund	Income Taxes	Committed	Council Ordinance	Committed	Income Tax	No
General	870	North Canton CIC Escrow Fund	Transfers (not a revenue)	Committed	Council Ordinance	Committed	CIC Escrow	No
Special Revenue	204	Fire Operating Fund	Property Taxes	Restricted	Levy Passage	Restricted	Security of persons and property	No
Special Revenue	205	EMS Operating Fund	Charges for services, Property Taxes	Restricted	Levy Passage & Council Ordinance	Restricted	Public health and welfare	No
Special Revenue	206	Computer Trust Fund	Fines and forfeitures	Restricted	State Law	Restricted	Computer systems	No
Special Revenue	207	Enforcement and Education Fund	Fines and forfeitures	Restricted	State Law	Restricted	Security of persons and property	No
Special Revenue	208	Street Construction M & R Fund	Intergovernmental - Gas Tax, MVL	ORC Section 5728.06 & 5735	Externally imposed by State Statute	Restricted	Transportation	No
Special Revenue	209	Storm Sewer Improvement Levy Fund	Property Taxes	Restricted	Levy Passage	Restricted	Utility services	No
Special Revenue	210	Street Improvement Levy Fund	Property Taxes	Restricted	Levy Passage	Restricted	Transportation	No
Special Revenue	211	Municipal Road Fund	Intergovernmental	Grant Award/Agreement	Externally imposed by Grantor	Restricted	Transportation	No
Special Revenue	212	General Trust Fund	Donations	Restricted	External Donation w/Special Requirement	Restricted	General Trust	No
Special Revenue	213	Law Enforcement Trust Fund	Fines and forfeitures	Restricted	State Law	Restricted	Security of persons and property	No
Special Revenue	214	Compensated Absences Fund	Transfers (not a revenue)	ORC Section 5705.13(B), transfers from other funds	City's intent--payment of sick/vacation/comp @ termination	Committed	Compensated absences	*Yes; General
Special Revenue	215	Continuing Professional Ed Fund	Intergovernmental	Restricted	State Law	Restricted	Security of persons and property	No
Special Revenue	Mayor's Court	Mayor's Court Fund	Fines and forfeitures	Restricted	State Law	Restricted	Mayors Ct	No
Capital Projects	330	Capital Improvement Fund	Income Taxes	Committed	Council Ordinance	Committed	Capital Improvements	No
Capital Projects	331	Capital Improvement Fund	Income Taxes	Committed	Council Ordinance	Committed	Capital Improvements	No
Capital Projects	332	Issue II Improvement Fund	Intergovernmental	OPWC Money	Externally imposed by grantor/OPWC	Restricted	Capital Improvements	No
Capital Projects	333	Hoover District Improvement Fund	Intergovernmental	Grant	Externally imposed by grantor/State	Restricted	Capital Improvements	No